SAM WINTERS
CHAIRMAN
BOARD OF GOVERNORS

UNITED STATES
POSTAL SERVICE

April 28, 1998

The Honorable Dan Burton
Chairman
Committee on Government Reform
and Oversight
U.S. House of Representatives
Washington, D.C. 205 15-6143

Dear Chairman Burton:

The Board of Governors has very carefully considered the important public policy questions you raised in your letter of April 8, 1998. After addressing each of your questions, the Board has concluded that the Postal Rate Commission currently has the necessary financial information to issue a Recommended Decision in the required lo-month time frame. By this letter, I will explain the rationale that leads us to this conclusion.

Our starting point is maintaining high quality customer service. The Postal Service is committed to continuing the record improvements in service for the benefit of its customers, while simultaneously holding down costs and prices. To accomplish this, in part, the Board has approved essential capital investments in facilities, equipment, automation, and operational programs and systems. Indeed, the revenue requested reflects the Board's policy decision to seek necessary funding for these approved investments, as well as to pay down our prior years' losses over time.

The Postal Service accumulated $9 billion in losses from 197 1 to 1994. In its 1994 decision, the Commission's Recommended Decision provided rates that generated $936 million in annual revenue to recover these losses. The Commission noted that it was the responsibility of the Postal Service to use these funds as intended. In fact, the Board passed a resolution making it the policy of the Postal Service, in keeping with the policy enunciated in the decision of the Postal Rate Commission, to generate income of at least $936 million annually to erase these losses.

PO Box 1148
AUSTIN TX 78767-I 148
512-472-8800
FAX: 512-474-1129

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The Board is also concerned that rate increases be moderate and timed to minimize disruption for our customers. In fashioning the current rate proposal, the Postal Service extended the most recent interval between rate cases for an extra year and one half from what was originally projected. The rates requested present the smallest increase ever, averaging over all classes of mail only 4.5 percent, well below the rate of inflation after almost four years. These moderate adjustments at this time will enable us to avoid larger rate increases in the future. Experience demonstrates that large increases in rates cause a loss in volume and we wish to avoid this adverse effect.

We considered the adequacy of the financial data. In the current rate case, relevant financial data have been supplied as required by the statutory and procedural requirements of the Postal Rate Commission used in all preceding cases. In fact, updated financial information has been provided to the Commission during this case. The Commission was provided the audited profit and loss statements for FY 1997. The financial information and data pertaining to the Postal Service's FY 1997 operating results were provided as soon as they became available in January of this year. The audited profit and loss statement is shown, among other places, on page 1 of the Postal Service's Annual Report.

In addition, I am advised that the Postal Service responded to numerous discovery requests and filed rebuttal testimony in the case providing information about the cost and revenue impacts of updated financial and other information from FY 1997, as well as for part of FY 1998. Information as current as March 1998 regarding specific costs, such as highway transportation costs, mail transportation equipment costs, and Year 2000 Software, has been introduced as evidence. In addition, updated financial information was provided to the Commission in areas, such as: (1 j updated statements of revenue and expense; (2) the impact of known changes on Docket No. R97-1 test year accrued costs; (3) major program changes affecting test year costs; and (4) the impact of FY 1997 actual non-personnel inflation factors. In fact, this was discussed in considerable detail in the rebuttal testimony of Richard Porras, Vice President, Controller of the Postal Service, in the pending rate case. In sum, the financial information was placed on the evidentiary record and subjected to full due process review, in accordance with legal requirements governing Commission proceedings.

Postal rate cases require the projection of future costs and revenues based on information about past performance. Because of the lengthy nature of the process (6 months preparation and 10 months consideration by the Postal Rate Commission), more current information is always being developed. That has been a fact of life in all previous rate cases. Following the usual cycle, the Postal Service's Cost and Revenue Analysis Report (CRA) for FY 1997 is not yet available. The CRA report, which is certified by our external auditor, is not produced earlier than the spring following the fiscal year to which it pertains. Accordingly, incorporating the FY 1997 CRA as it becomes available in the future would require many additional months and would not allow the Commission to meet the 1 O-month deadline mandated by law.

The Postal Reorganization Act requires the Commission to deliver its recommendations in rate cases to the Governors within ten months. A request that we agree to waive or suspend the statutory limitation asks for something that is by no means clearly within our authority to grant. In amending the Postal Reorganization Act, Congress determined in 1976 that 10 months would be an adequate period for the Commission to conduct rate proceedings and transmit a Recommended Decision to the Governors. It made this change at a time when rate cases went on and on, imperiling the ability of the Postal Service to meet its payroll and other obligations. The requirement to conduct ratemaking on the record, and to allow full adversarial testing of the data and methodologies employed, always prevents the Commission from including the very latest information that continues to become available at, near, or past the end of the 1 O-month time frame. Thereafter, as the Board of Governors considers the timing of the effective date of any increases once the Commission's recommended decision is received, we always have a little later perspective on the state of postal finances than the Commission was able to incorporate.

As acknowledged in my March 5 response to the Commission, such statutory constraints present the Commission with the challenge in every case of developing a sound evidentiary record and recommending rates based on that record. This is a challenge which the Commission has consistently and successfully met in the past. Indeed, the Commission's February 24 request acknowledged this lo-month deadline for transmission of a Recommended Decision to the Governors, and stated that the Commission was on-track to complete its deliberations and fulfill its obligations within that time frame.

Necessarily, I am reluctant to comment in more detail on the state of the evidentiary record in the pending case, in light of the Governors' role in the ratemaking scheme. Suffice it to say, the Commission has been building an extensive record on which to base informed, reliable recommendations in accordance with the Postal Reorganization Act and the

Commission's own rules of practice and procedure. The Postal Service has fully complied with the Commission's requirements in the case.

In closing, I want to reassure you that this Board has fully and clearly in mind our responsibility to the American people and to the Congress to balance the need to improve service and convenience with the need to control the cost of the postal system and to keep postage rates as low as we can. This approach is consistent with the message we received from our customers for smaller and, if necessary, more frequent rate increases rather than the large increases of the past which resulted in "rate shock" for many of our customers. Recent experience demonstrates once again that rate stability is healthy both for the Postal Service and for our customers. Under the Commission's rules, the Postal Service could have based its proposed rates on projections of FY 1999 costs. This would have avoided arguments that the test year be updated to reflect partial-year actual results. It would, however, have resulted in higher rates. We chose to pursue the course that leads to lower increases.

I trust that this provides the necessary explanation for the Board's conclusions regarding the pending rate case. As former Board Chairman, Governor Tirso del Junco, said soon after the rate case was filed with the Postal Rate Commission, and I reiterated in my March 5 response to the Commission, no rate changes will be implemented until we are convinced, based on the latest available information, that the money is needed and the increases cannot prudently be postponed. We owe it to our customers to assure that, in our effort to prolong current rates, we do not jeopardize the opportunity to keep rate increases as small as we can once adjustments become necessary.

Very truly yours,

Sam Winters

Sam Winters

cc: Board of Governors

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